

## THE PPC

## GOVERNMENTAL UPDATE

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## 2018 Yellow Book CPE Requirements Remain Largely Unchanged



The U.S. Government Accountability Office (GAO) issued the 2018 revision to *Government Auditing Standards* (the Yellow Book) in July of last year, which supersedes the 2011 version of the standards. While previous editions of this newsletter have addressed its issuance in a general way, we want to cover the continuing professional education (CPE) revisions in this edition.

### Practical Consideration:

The revised Yellow Book is effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019.

### Background

The preliminary revisions to the CPE section that were included in the exposure draft released in July 2017 contained additional detail and clarification that were welcomed by the audit community, but also contained some proposed changes

that were concerning. One item of concern was the addition of a four-hour CPE requirement on generally accepted government auditing standards (GAGAS) each time a new version was issued. While this requirement was removed from the final document, application guidance was added indicating that such CPE may assist auditors in maintaining their competence during years when the standards change.

### What Has Changed?

The 2018 Yellow Book includes a more robust and detailed chapter on competence and CPE, with added application guidance on topics such as:

- CPE subject matter categories (24-hour and 56-hour categories)
- CPE exemptions and exceptions
- Programs and activities qualifying for CPE
- Measuring and monitoring CPE

Much of this detailed application guidance was pulled from the document *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing*

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*Professional Education.* As a result, that document has been retired.

One important change to note is that the 2018 Yellow Book now allows nonsupervisory auditors who charge less than 40 hours of their time annually to GAGAS engagements to be exempted by their organization from all CPE requirements. In addition, new application guidance was issued related to obtaining GAGAS-specific CPE each time a new Yellow Book revision is issued.

## What Has Not Changed?

The basic CPE requirement remains unchanged. Auditors who plan, direct, or perform engagement or reporting procedures for an engagement conducted in accordance with GAGAS should complete (and maintain documentation of) at least 80 hours of CPE in every two-year period (with a minimum of 20 hours in each year) as follows:

- 24 hours of CPE on subject matter directly related to the government environment, government auditing, or the specific environment in which the audited entity operates.
- 56 hours of CPE on subject matter that directly enhances the auditor's professional expertise to conduct engagements.

Auditors who charge less than 20% of their time on GAGAS engagements and are not involved in planning, directing, or reporting on the engagements may be exempted from the 56-hour CPE requirement. The audit organization is ultimately responsible for determining whether a subject or topic qualifies as acceptable for its auditors.

## Overall Assessment

So, while the final version of the 2018 Yellow Book did in fact make many revisions to the chapter on competency and CPE, it did not significantly change any of the CPE requirements that existed in the 2011 version and many practitioners can continue to follow the same basic guidelines for Yellow Book CPE as they have in the past. However, the additional application guidance should still be reviewed.

### Practical Consideration:

Auditors should consult the 2018 Yellow Book and its application guidance in Chapter 4 for more specific information regarding the CPE requirements. The revised Yellow Book can be found at [www.gao.gov/yellowbook](http://www.gao.gov/yellowbook).

# GASB Issues Exposure Draft of 2019 Implementation Guide

In November 2018, the GASB released an exposure draft (ED) of *Implementation Guide—2019-1* (the Guide), which proposes new Q&A items addressing issues such as cash flows, postemployment benefits, and derivative instruments, as well as implementation guidance on a number of GASB Statements. The Guide also proposes to amend a number of existing Q&A items.

GASB Implementation Guides are Category B guidance as designated in GASBS No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and thus are cleared by the GASB to assist users in clarifying, explaining, or elaborating on the requirements in GASB Statements.

## Proposed Q&A Items

The Guide proposes new Category B guidance on the following topics:

- *Reporting Cash Flows.* The Guide proposes to add a Q&A item discussing cash flow reporting for resources received in an irrevocable split-interest agreement. The Q&A clarifies that such receipts should not be split between lead and remainder interests in the statement of cash flows. It also addresses classification of such receipts in the statement of cash flows, which may vary depending on the presence of donor restrictions.
- *Postemployment Benefits—Plan and Employer Reporting.* The Guide proposes five new Q&A items on postemployment benefits. The first two address index rates used to measure total pension liability and OPEB liability. The latter three Q&A items pertain to application of GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, with regard to benefit payments and measurement of OPEB.
- *Derivative Instruments.* The proposed Q&A item on this topic discusses accounting for termination of an interest rate swap that effectively hedges against interest rate risk on a variable rate bond.
- *Other Implementation Guidance.* The Guide proposes to add implementation guidance Q&A items on the following:
  - GASBS No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
  - GASBS No. 42, *Accounting and Financial Reporting*



for Impairment of Capital Assets and for Insurance Recoveries

- GASBS No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*
- GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*
- GASBS No. 77, *Tax Abatement Disclosures*
- GASBS No. 81, *Irrevocable Split-Interest Agreements*

## Amendments

The Guide also proposes amendments on the following:

- The definition of financial accountability in Q&A item 4.17.1 in *Implementation Guide 2015-1*, as amended by GASBS No. 90, *Majority Equity Interests*
- Accounting by pension plan reporting of changes in fiduciary net position in Q&A item 5.74.1 in *Implementation Guide 2015-1* and Q&A item 4.53 in *Implementation Guide 2017-2*
- Accounting and financial reporting for certain derivative instruments in Q&A item 10.46.10 in *Implementation Guide 2015-1*

## Comments and Effective Date

Comments on the ED were due January 31, 2019. The *Implementation Guide 2019-1* requirements would be effective for reporting periods beginning after June 15, 2019, but earlier application is encouraged if the pronouncements addressed by the Q&As have been implemented. Changes should be applied via retroactive restatement of the financial statements when practicable. If, however, that approach is not feasible, a cumulative adjustment for any effects of implementation should be made to beginning net position for the earliest period restated, with disclosure, in the notes to the financial statements, of the nature of the adjustment as well as the reason for not retroactively restating.

### Practical Consideration:

The ED is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content, or on the GASB website at **www.gasb.org**.



# New Proposed Implementation Guide—Fiduciary Activities

In January 2019, the GASB announced the issuance of an exposure draft (ED) of a proposed Implementation Guide, *Fiduciary Activities*, which includes new Q&As addressing issues related to the implementation of GASBS No. 84, *Fiduciary Activities*. GASBS No. 84 was issued in January 2017 and is effective for reporting periods beginning after December 15, 2018. The proposed answers are intended to clarify and explain the accounting and financial reporting requirements for fiduciary activities.

GASB Implementation Guides are Category B guidance as designated in GASBS No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and thus are cleared by the GASB to assist users in clarifying, explaining, or elaborating on the requirements in GASB Statements.

### Practical Consideration:

The ED is available on Checkpoint at **checkpoint.riag.com** for users that subscribe to GASB content, or on the GASB website at **www.gasb.org**.

## Matters Addressed

The questions and answers address various fact patterns on the following matters:

- Whether a pension or OPEB plan is considered legally separate from the government.
- Whether a government is considered financially accountable for a pension or OPEB plan.
- When the government needs to consider if it controls the assets of an activity and, if so, whether the government has control of the assets.
- Whether other fiduciary activities (that are not pension or OPEB plans) should be reported as fiduciary activities.
- Whether other fiduciary activities should be reported as investment trust funds, private-purpose trust funds, or custodial funds.
- Whether funds held are for the benefit of individuals, another entity, or the government itself.

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- Whether the government has administrative or direct financial involvement of funds held for the benefit of individuals. (Many of these questions are student activity fund examples.)
- Whether resources are derived from the government providing goods or services, or the government's own-source revenues.
- Whether resources qualify for the business-type activity exception.
- Whether a liability should be recognized in the statement of fiduciary net position.
- Whether activities can be aggregated in the statement of changes in fiduciary net position.

The ED also includes amended answers to questions in various other Implementation Guides and indicates that it would supersede two questions in Implementation Guide No. 2015-1.

While the ED is not authoritative until final (and is not expected to be issued until second quarter 2019), we believe the proposed answers will be useful to you and your clients as you begin to evaluate the implications

of GASBS No. 84. The answers generally provide the Board's thought process and rationale in applying the requirements to various fact patterns, which may be applied to your client's scenario even if not specifically provided in the ED.

### Effective Date

For all but two questions, the proposed effective date is reporting periods beginning after December 15, 2018. Questions 5.2 and 5.5 are effective for reporting periods beginning after June 15, 2019. Early application is encouraged if the government has implemented GASBS No. 84 or the provisions in Questions 5.2 and 5.5.

### Practical Consideration:

If you would like to weigh in on the matters addressed in the ED, submit your comments to the GASB by February 28, 2019.

